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2 **TESTIMONY OF LEE SMITH**  
3 **ON BEHALF OF**  
4 **THE MASSACHUSETTS OFFICE OF THE ATTORNEY GENERAL**  
5 **D.T.E. 06-5**  
6  
7

8 **Q. What is your name and business address?**

9 A. My name is Lee Smith. I work for La Capra Associates, 20 Winthrop Square,  
10 Boston, Massachusetts.  
11

12 **Q. What is your occupational experience?**

13 A. I am a Senior Economist and Managing Consultant at La Capra Associates. I  
14 have been with this energy planning and regulatory economics firm for 21 years.  
15 Prior to my employment at La Capra Associates, I was Director of Rates and  
16 Research, in charge of gas, electric, and water rates, at the Massachusetts  
17 Department of Public Utilities "DPU" (now the Department of  
18 Telecommunications and Energy, or "DTE"). Prior to that period, I taught  
19 economics at the college level. My resume is attached to my testimony.  
20

21 **Q. What is your experience in rate design and cost allocation?**

22 A. Since leaving the Massachusetts DPU, I have performed cost studies and prepared  
23 rate design for over twenty utilities in more than a dozen states. I have advised  
24 public utility commissions and consumer advocates on issues related to electric  
25 and gas rates, and electric restructuring. My resume is contained in Exhibit LS- 1.  
26

27 **Q. Please describe your educational background.**

28 A. I have a bachelor's degree with honors in International Relations and Economics  
29 from Brown University. I have completed all requirements for the Ph.D. except  
30 the dissertation from Tufts University.  
31

1   **Q.     On whose behalf are you testifying in this proceeding?**

2   A.     I am testifying on behalf of the Massachusetts Office of the Attorney General  
3           ("AG").  
4

5   **Q.     What is the purpose of your testimony in this proceeding?**

6   A.     The Massachusetts Office of the Attorney General asked me to review the  
7           National Grid ("the Company") Regional Index filing. The Company has  
8           requested an increase in its distribution rates of 4.05%.  
9

10  **Q.     What is the purpose of National Grid's filing?**

11  A.     This filing is the result of a rate plan that was established in the Settlement in  
12           MDTE Docket 99-47, that resulted from the proceeding regarding the merger  
13           between Massachusetts Electric Company and Eastern Utilities. It was agreed  
14           that Massachusetts Electric's unbundled rates for distribution service would  
15           remain fixed until March 2006, at which time they would be changed based on the  
16           change a Regional Index of rates.  
17

18  **Q.     How was this Regional Index supposed to be calculated?**

19  A.     The Regional Index was intended to reflect the average of the unbundled  
20           distribution rates of other utilities from New England, New York, New Jersey,  
21           and Pennsylvania, which was referred to in the review of the Company's initial  
22           position. The initial 2004 index computations were based on 26 utilities. Future  
23           changes in the Company's distribution rates in each year from 2006 to 2009 were  
24           to reflect the change in the Regional Index. The Settlement specified that the  
25           utilities included in the Regional Index could change.  
26

27  **Q.     Have any issues been raised by this filing?**

28  A.     Yes. There have been changes in the rate structure of two utilities during the  
29           period from July 2004 to July 2005 that result in one utility implementing  
30           unbundled distribution rates and another rebundling its distribution and  
31           transmission rates. Public Service Company of New Hampshire ("PSNH")

1 unbundled its distribution rates. Con Edison's distribution rates have been  
2 "rebundled" with its transmission rates. These changes need to be addressed in  
3 the calculation of the Regional Index.  
4

5 **Q. How has National Grid proposed to address these changes in rate structure?**

6 A. With regard to PSNH's newly unbundled distribution rates, the Company is  
7 proposing that it be included in the Index next year. However, National Grid has  
8 addressed the Con Ed rate change by making an assumption about what portion of  
9 the new bundled rates are distribution, and then including those assumed  
10 distribution rates in the index for 2005.  
11

12 **Q. Are Con Ed's distribution rates a significant issue?**

13 A. It is, because Con Ed's rates are the largest single component of the 2004  
14 Regional Index. The weight afforded each utility's rates is determined by the size  
15 of the utility's load, which results in weighting Con Ed by approximately 13.5%.  
16

17 **Q. What did the original Settlement say regarding how the utilities included in  
18 the index should change?**

19 A. The Settlement anticipated that there could be change in the utilities with  
20 unbundled rates. According to the "Principles for Application of the Regional  
21 Index", Attachment 8 to the Settlement, the "Regional Index shall be normalized  
22 for new entrants after the initial calibration in July, 2004, so that Mass. Electric's  
23 relative position in the index is not affected by the introduction or elimination of  
24 utilities included in the Regional Index after July 1, 2004."  
25

26 **Q. Did the original Settlement state anything else about the utilities included in  
27 the Regional Index?**

28 A. Yes. In Attachment 8 of the original Settlement, Principle 4 states that "[a]  
29 Regional Utility included in the Regional Index will be an investor-owned electric  
30 utility in the six New England states, New York, New Jersey or Pennsylvania  
31 with tariffs containing distribution rates and charges that reflect an array of

1 unbundled distribution services comparable to the unbundled distribution services  
2 collected through the electric distribution rates of electric utilities in  
3 Massachusetts.”  
4

5 **Q. National Grid has proposed that they include Con Ed in the index this year.**  
6 **What is the problem with this proposal?**

7 A. There is a significant practical problem with this proposal. Since Con Ed no  
8 longer offers unbundled distribution rates, we do not know how its distribution  
9 rates changed from 2004 to 2005. The Company has assumed that both  
10 transmission and distribution cost components changed equally, and subtracted  
11 the assumed transmission component from the bundled rates. This does not  
12 reflect an actual change in Con Ed’s distribution rates. Moreover, in future years  
13 attempting to retain Con Ed will be even more problematic.  
14

15 This proposed treatment also contradicts how the Company is treating the PSNH  
16 rate. They have created an alternative 2005 index base including the new  
17 distribution rate, and will include PSNH in the 2006 index, so that next year they  
18 can indicate what changes have occurred from 2005 to 2006, looking at the same  
19 utilities and their actual distribution rates in both years. If they had treated PSNH  
20 equivalent to Con Ed, they presumably would have not attempted to estimate  
21 what PSNH’s 2004 distribution rate would have been, and incorporate PSNH in  
22 the 2005 rate adjustment.  
23

24 **Q. What is your recommendation for how Con Edison, PSNH, and other future**  
25 **changes in the utilities that are eligible to be included in the Regional Index?**

26 A. I recommend that the approach that the Company appears to be following with  
27 regard to PSNH should be the model for other changes. In this case, that calls for  
28 recalibrating the 2004 index by excluding Con Ed, and comparing this  
29 recalibrated index rate to a 2005 index, also without Con Ed.  
30  
31

1   **Q.     What are the results of this recalibration?**

2   A.     The average Regional Index rate in 2004 is lower than the index that was  
3           reviewed last summer. The percentage increase in the Regional Index rate from  
4           2004 to 2005 is also lower than the percentage increase that the Company has  
5           supported. Finally, the Company's 2004 rate is more than 90% of the revised  
6           Regional Index rate for 2004.

7  
8   **Q.     Do these results raise any issues?**

9   A.     Yes, they do. In particular, the fact that the Company's 2004 rate is greater than  
10          the revised Regional Index rate raises the question of the intent of the Settlement  
11          with regard to the "90% of the Regional Index" criterion. The Company has  
12          proposed that if Con Ed is removed from the index, as I have recommended, that  
13          its relationship to the Regional Index should be determined by its relative position  
14          at approximately 95% of the revised Regional Index rate. However, if this is the  
15          correct interpretation as to how the index should be revised, the resulting rate for  
16          the Companies in the future could be higher than the Regional Average.

17  
18          Moreover, the Order in DTE 99-47 stated that the "initial distribution rates for the  
19          combined companies are the lesser of 1) MECO's distribution rates approved in  
20          DPU/DTE 96-25 or 2) 90% of the Regional Index rate.

21  
22   **Q.     Aside from how Con Ed's rate should be addressed, did your review find any**  
23   **other issues?**

24   A.     A significant number of the rates used in the 2005 index have been superceded by  
25          new rates. I did not have these rates to review. Of the rates that I could review, I  
26          have not found any errors.

27  
28   **Q.     Does this conclude your testimony?**

29   A.     Yes, it does.